

PERAC AUDIT REPORT



Needham

Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2015



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations	10
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	11
Note 2 - Significant Accounting Policies	18
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System	24
Note 5 - Actuarial Valuation and Assumptions.....	25
Note 6 - Membership Exhibit.....	26

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

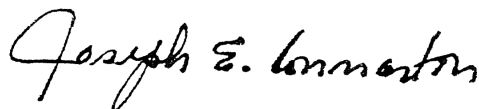
May 3, 2018

The Public Employee Retirement Administration Commission has completed an examination of the Needham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2015. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of the examiners Elaine Pursley and Teresa Coley who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Cash:

The audit review of the monthly Bank of America (BOA) and Massachusetts Municipal Depository Trust (MMDT) bank reconciliations found stale outstanding checks of more than six months and old reconciling items.

The BOA bank reconciliation at 12/31/2015 included four stale outstanding checks from April, July, August and December 2014 for a total of \$4,847. The BOA bank reconciliation at 11/30/2016 included the same outstanding checks. Also, we noted a reconciling item of \$1,287 for a check issued on 6/30/2006 listed on the bank reconciliations. This continued as a reconciling item on the BOA bank reconciliation at 11/30/2016.

The MMDT bank reconciliation at 12/31/2015 included a check which was listed as outstanding on the bank reconciliation at 12/31/2012. The MMDT bank reconciliation at 3/31/2017 included \$10,631 as a reconciling total with no explanation or details, such as check numbers or check dates. We were not able to determine if there were stale checks or old reconciling items on this MMDT bank reconciliation without this detail information.

We noted in our review of the monthly Board meeting minutes that the reviews of BOA bank reconciliations were late. We found the bank reconciliations were tabled for several months at a time for Board review. For example, at the June 22, 2016 Board meeting, the December 2015-April 2016 bank reconciliations were tabled for review by the Board until the next meeting. Also, at the January 11, 2017 Board meeting, the February-November 2016 bank reconciliations were tabled for review.

Recommendation: The Needham Retirement System should review and resolve outstanding items of over six months listed on the BOA and MMDT bank reconciliations. The bank reconciliations should include check numbers and issue dates for outstanding checks. Bank reconciliations should be prepared monthly and provided to the Board at each monthly meeting for the Board's review along with the monthly Cash Books. Review and approval should be recorded in the Board Meeting minutes.

This is a recurring finding; it was included on the 2009-2011 PERAC Audit Report.

Board Response:

All reconciliations are now current and the format has been changed to accommodate all reconciling items providing more detailed explanations of outstanding items so that research and resolution can be done timely.

2. System Administration

The audit review of Board meeting minutes found that one Board Member's attendance was below the 75% acceptable level at Board meetings held between 2012 through 2015.

The review also found missing minutes for one special meeting from the Minutes Book kept by the Needham Retirement System.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation:

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board might consider adjusting the schedule of Board meetings in order to better accommodate its members.

We recommend that Board Meeting minutes are recorded, finalized and added to the Minutes Book.

Board Response:

The Board has been made aware of the attendance requirement and the individual to which this applied had an extenuating circumstance which required his absence for several Board meetings. Going forward, all Board members will be in attendance and meeting dates will be adjusted to accommodate any conflicts.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,				
	2015	2014	2013	2012
Net Assets Available For Benefits:				
Cash	\$318,377	\$547,639	\$521,850	\$637,276
PRIT Cash Fund	466,011	521,591	548,806	520,615
PRIT Core Fund	133,862,555	135,084,330	127,454,695	113,035,541
Accounts Receivable	73,378	134,686	189,518	126,673
Accounts Payable	(31,018)	(75,195)	(70,740)	(35,252)
Total	<u>\$134,689,303</u>	<u>\$136,213,050</u>	<u>\$128,644,129</u>	<u>\$114,284,852</u>
Fund Balances:				
Annuity Savings Fund	\$32,178,583	\$31,090,104	\$30,174,230	\$28,922,524
Annuity Reserve Fund	6,976,491	6,793,985	6,035,037	5,874,468
Pension Fund	3,158,487	3,640,305	3,825,239	3,559,777
Military Service Fund	17,698	17,680	17,663	17,645
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>92,358,043</u>	<u>94,670,976</u>	<u>88,591,960</u>	<u>75,910,438</u>
Total	<u>\$134,689,303</u>	<u>\$136,213,050</u>	<u>\$128,644,129</u>	<u>\$114,284,852</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$27,295,612	\$6,442,099	\$3,846,057	\$16,376	\$0	\$66,032,627	\$103,632,771
Receipts	3,187,792	184,424	5,371,823	1,269	769,908	13,073,220	22,588,437
Interfund Transfers	(710,223)	707,222	3,198,410	0	0	(3,195,409)	0
Disbursements	(850,658)	(1,459,276)	(8,856,514)	0	(769,908)	0	(11,936,355)
Ending Balance (2012)	28,922,524	5,874,468	3,559,777	17,645	0	75,910,438	114,284,852
Receipts	3,335,219	171,747	5,789,062	18	879,295	16,103,594	26,278,935
Interfund Transfers	(1,497,420)	1,497,420	3,422,072	0	0	(3,422,072)	0
Disbursements	(586,094)	(1,508,597)	(8,945,671)	0	(879,295)	0	(11,919,658)
Ending Balance (2013)	30,174,230	6,035,037	3,825,239	17,663	0	88,591,960	128,644,129
Receipts	3,401,643	183,261	5,922,145	18	850,656	9,294,171	19,651,894
Interfund Transfers	(2,221,956)	2,221,956	3,139,960	0	75,195	(3,215,155)	0
Disbursements	(263,813)	(1,646,270)	(9,247,040)	0	(925,851)	0	(12,082,973)
Ending Balance (2014)	31,090,104	6,793,985	3,640,305	17,680	0	94,670,976	136,213,050
Receipts	3,462,310	188,068	6,566,483	18	930,301	359,926	11,507,106
Interfund Transfers	(1,757,991)	1,757,991	2,672,859	0	0	(2,672,859)	0
Disbursements	(615,839)	(1,763,554)	(9,721,159)	0	(930,301)	0	(13,030,853)
Ending Balance (2015)	<u>\$32,178,583</u>	<u>\$6,976,491</u>	<u>\$3,158,487</u>	<u>\$17,698</u>	<u>\$0</u>	<u>\$92,358,043</u>	<u>\$134,689,303</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Members Deductions	\$3,252,933	\$3,065,712	\$2,953,545	\$2,785,424
Transfers from Other Systems	254,729	244,981	200,680	211,128
Member Make Up Payments and Re-deposits (A)	(91,641)	54,911	111,957	84,028
Member Payments from Rollovers	0	0	26,462	56,269
Investment Income Credited to Member Accounts	46,288	36,039	42,576	50,944
Sub Total	<u>3,462,310</u>	<u>3,401,643</u>	<u>3,335,219</u>	<u>3,187,792</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>188,068</u>	<u>183,261</u>	<u>171,747</u>	<u>184,424</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	225,666	190,433	185,945	168,187
Pension Fund Appropriation	<u>142,380</u>	<u>158,938</u>	<u>182,663</u>	<u>206,215</u>
Sub Total	<u>6,198,437</u>	<u>5,572,775</u>	<u>5,420,454</u>	<u>4,997,421</u>
	<u>6,566,483</u>	<u>5,922,145</u>	<u>5,789,062</u>	<u>5,371,823</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	1,253
Investment Income Credited to the Military Service Fund	<u>18</u>	<u>18</u>	<u>18</u>	<u>16</u>
Sub Total	<u>18</u>	<u>18</u>	<u>18</u>	<u>1,269</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>930,301</u>	<u>850,656</u>	<u>879,295</u>	<u>769,908</u>
Pension Reserve Fund:				
Interest Not Refunded	0	0	4,291	6,142
Miscellaneous Income	0	0	9	0
Excess Investment Income	<u>359,926</u>	<u>9,294,171</u>	<u>16,099,294</u>	<u>13,067,078</u>
Sub Total	<u>359,926</u>	<u>9,294,171</u>	<u>16,103,594</u>	<u>13,073,220</u>
Total Receipts, Net	<u>\$11,507,106</u>	<u>\$19,651,894</u>	<u>\$26,278,935</u>	<u>\$22,588,437</u>

(A) Negative balance in 2015 due to the reversal of outstanding buy backs from 12/31/2013.

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Refunds to Members	\$266,006	\$100,113	\$328,699	\$477,870
Transfers to Other Systems	<u>349,833</u>	<u>163,700</u>	<u>257,395</u>	<u>372,787</u>
Sub Total	<u>615,839</u>	<u>263,813</u>	<u>586,094</u>	<u>850,658</u>
Annuity Reserve Fund:				
Annuities Paid	1,763,554	1,633,854	1,508,597	1,459,276
Option B Refunds	<u>0</u>	<u>12,415</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,763,554</u>	<u>1,646,270</u>	<u>1,508,597</u>	<u>1,459,276</u>
Pension Fund:				
Regular Pension Payments	7,490,206	7,161,286	6,795,072	6,681,870
Survivorship Payments	379,191	388,920	372,199	354,817
Ordinary Disability Payments	21,416	21,026	20,666	20,306
Accidental Disability Payments	1,129,072	1,000,368	970,920	1,003,327
Accidental Death Payments	314,460	309,780	351,433	358,432
Section 101 Benefits	24,423	35,989	41,923	49,021
3 (8) (c) Reimbursements to Other Systems	<u>362,392</u>	<u>329,672</u>	<u>393,458</u>	<u>388,740</u>
Sub Total	<u>9,721,159</u>	<u>9,247,040</u>	<u>8,945,671</u>	<u>8,856,514</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Salaries	141,564	147,806	140,416	132,081
Legal Expenses	5,148	150	100	1,505
Medical Expenses	0	222	0	0
Travel Expenses	9,762	8,032	4,766	5,952
Administrative Expenses	5,731	6,125	8,371	5,411
Actuarial Services	15,000	14,000	14,000	14,600
Accounting Services	14,000	9,000	6,500	6,000
Education and Training	4,950	6,250	2,900	4,000
Furniture and Equipment	1,262	0	0	0
Management Fees	698,387	702,795	671,177	571,439
Service Contracts	25,768	22,975	22,975	20,840
Fiduciary Insurance	<u>8,729</u>	<u>8,496</u>	<u>8,091</u>	<u>8,081</u>
Sub Total	<u>930,301</u>	<u>925,851</u>	<u>879,295</u>	<u>769,908</u>
Total Disbursements	<u>\$13,030,853</u>	<u>\$12,082,973</u>	<u>\$11,919,658</u>	<u>\$11,936,355</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Investment Income Received From:				
Cash	\$3,285	\$2,474	\$2,582	\$4,009
Pooled or Mutual Funds	<u>3,548,488</u>	<u>3,743,392</u>	<u>3,499,710</u>	<u>3,409,200</u>
Total Investment Income	<u>3,551,773</u>	<u>3,745,866</u>	<u>3,502,292</u>	<u>3,413,209</u>
Plus:				
Realized Gains	4,891,556	5,936,439	5,629,471	2,763,423
Unrealized Gains	<u>7,046,505</u>	<u>8,566,848</u>	<u>14,523,733</u>	<u>14,429,112</u>
Sub Total	<u>11,938,061</u>	<u>14,503,287</u>	<u>20,153,204</u>	<u>17,192,536</u>
Less:				
Unrealized Loss	<u>(13,965,233)</u>	<u>(7,885,009)</u>	<u>(6,462,566)</u>	<u>(6,533,375)</u>
Net Investment Income	<u>1,524,601</u>	<u>10,364,144</u>	<u>17,192,930</u>	<u>14,072,370</u>
Income Required:				
Annuity Savings Fund	46,288	36,039	42,576	50,944
Annuity Reserve Fund	188,068	183,261	171,747	184,424
Military Service Fund	18	18	18	16
Expense Fund	<u>930,301</u>	<u>850,656</u>	<u>879,295</u>	<u>769,908</u>
Total Income Required	<u>1,164,675</u>	<u>1,069,973</u>	<u>1,093,635</u>	<u>1,005,292</u>
Net Investment Income	<u>1,524,601</u>	<u>10,364,144</u>	<u>17,192,930</u>	<u>14,072,370</u>
Less: Total Income Required	<u>1,164,675</u>	<u>1,069,973</u>	<u>1,093,635</u>	<u>1,005,292</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$359,926</u>	<u>\$9,294,171</u>	<u>\$16,099,294</u>	<u>\$13,067,078</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2015		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$318,377	0.2%
PRIT Cash Fund	466,011	0.3%
PRIT Core Fund	<u>133,862,555</u>	<u>99.4%</u>
Grand Total	\$134,646,943	<u>100.0%</u>

For the year ending December 31, 2015, the rate of return for the investments of the Needham Retirement System was 1.17%. For the five-year period ending December 31, 2015, the rate of return for the investments of the Needham Retirement System averaged 7.45%. For the thirty one-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Needham Retirement System was 9.60%.

The composite rate of return for all retirement systems for the year ending December 31, 2015 was 0.91%. For the five-year period ending December 31, 2015, the composite rate of return for the investments of all retirement systems averaged 7.49%. For the thirty one-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.14%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Needham Retirement System is 100% invested in PRIT and therefore has no supplemental investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Needham Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a) (17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$846.12 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$846.12 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Needham Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership:

October 9, 2007:

The Board unanimously approved the immediate establishment of a policy which would mandate membership in the Retirement System effective as of the first day of employment (for employees working an average of 20 hours or more per week).

October 9, 2007:

The Needham Retirement Board held to the twenty hour per week minimum requirement for membership.

October 9, 2007:

Crossing Guards: From the date of Wednesday, November 19, 2003 and forward, Crossing Guards, who do not meet the eligibility requirements of 20 hours or more per week on a regular basis, are not eligible for membership in the Needham Contributory Retirement System. Any Crossing Guard enrolled as of Wednesday, November 19, 2003 may elect to remain a member and seek a retirement benefit, if and when qualified, or request a refund of his/her accumulated deductions and earned interest.

October 9, 2007:

Election Registrars: From the date of Wednesday, December 18, 2002 forward, appointees to the Board of Registrars are not eligible for the membership in the Needham Contributory Retirement Board based solely on this appointment. Any Registrar enrolled as of Wednesday, December 18, 2002 may elect to remain a member and seek a retirement benefit, if and when qualified, or request a refund of his/her accumulated deductions and earned interest.

October 9, 2007:

KASE Employees: The Board voted unanimously to grant membership to those school department employees (KASE workers) serving on a full time basis.

Creditable Service:

October 9, 2007:

Former members who resign but leave their money in the System and subsequently are re-hired at less than 20 hours per week are eligible to continue their creditable membership service.

October 9, 2007:

Unused Vacation at Retirement: The retiree may extend creditable service through the vacation period, or take vacation pay in a lump sum, ending creditable service as of the last day worked.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

October 9, 2007:

Waiver of Interest: When a person buys back time during which was he was eligible but no deductions were taken, the member must also pay back the interest which would have been earned on the account.

Regular Compensation:

October 9, 2007:

Payments for Unused Vacation and Sick Days: The board voted to continue the practice of excluding pay in lieu of vacation from regular compensation.

October 9, 2007:

Veterans: The Board approved that the buyback of military creditable service limit be increased from one to five years. The five year period begins on the date of the letter informing the vet of the cost. If payments are stopped, the person may resume payments up to the five year time limitation. The board voted to keep the five year limitation for military service buybacks.

October 9, 2007:

Military: The board agreed that the Military Buyback provision of Chapter 116 of the Acts of 2002 should apply to eligible members who only purchased a portion of their service allowed at the first opportunity in 1997 or 1998 as well as to those eligible members who have never previously applied for a buyback. The eligible member must elect to do so within 180 days of the notification and complete the buyback within 5 years of the date of notification.

Miscellaneous:

September 12, 2008:

Mailings to Membership: Requests for mailings of information to the membership must be reasonable, made in writing, directly related to retirement board issues, and approved by the Chair of the Needham Retirement Board. The processing and mailing of notices to the membership for any reason shall be done by Needham Retirement Board staff. Upon receipt of approval the requestor must provide:

- The envelopes containing only the approved notice(s) with applicable postage affixed, and
- Payment for the cost of both the labels and the staff time for processing.

The Needham Retirement Board shall establish the cost of staff time in compliance with applicable regulation.

October 9, 2007:

Research Requests: Requests for research assistance for payroll record information for buybacks from teachers and non-members must be in writing to the payroll coordinator of the specific unit, since this is not a retirement board function.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

October 9, 2007:

Address Verifications: Re: acceptable proof from retirees who live overseas. The statement will be amended to read under the “pains and penalties of perjury” and will be acceptable if accompanied with current photo identification.

October 9, 2007:

Special Constables: The Board reviewed their role in the appointment of special constables to the Needham Police Department. It was unanimously decided that it was the Board’s obligation to inform the Police Chief and Board of Selectmen if any of the candidates had retired for Accidental Disability. Although the final decision would rest with the Board of Selectmen, the Retirement Board would strongly suggest denial of appointment to special constable if the medical condition of a retiree would put the Town in an uncertain position.

October 9, 2007:

Earning Restrictions: If a disabled member of the Needham Retirement System whose earnings exceed the limitations set forth in M.G.L. c. 32, sec 91A can demonstrate that a lump-sum payment of said over earnings to the System would result in financial hardship, the Board shall, in its sole discretion, develop a monthly payment schedule to address the disabled member’s financial needs, not to exceed 6 months. If the disabled member elects to utilize said monthly payment schedule, the method of payment shall be by automatically withholding the predetermined amount from the disabled member’s monthly retirement allowance.

October 9, 2007:

Group Classification: The Needham Retirement Board unanimously approved the reclassification of the position of School Craftsman-Electrician to a group 2 classification because this position requires an electrician license.

October 9, 2007:

Inactive Members: The Board voted to notify members inactive for over two years, that no more interest accrues, and they can take a refund.

October 9, 2007:

Involuntary Retirement: The board established a policy that anyone entitled to Section 16B benefits be invited to have a hearing with the Board.

October 9, 2007:

Legal: The Board approved a motion that all requests for legal opinions be approved by the Board.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Travel Regulations:

The Needham Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/board-info/profiles/needham.html>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Treasurer who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Evelyn M. Pones Chairman	Until successor is appointed
Appointed Member:	Sandra Cincotta	Term Expires: 01/27/2019
Elected Member:	Thomas A. Welch	Term Expires: 07/23/2019
Elected Member:	John P. Krawiecki	Term Expires: 12/17/2020
Appointed Member:	Robert P. Mearls	Term Expires: 04/15/2018

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Segal Consulting as of January 1, 2017.

The actuarial liability for active members was	\$98,001,940
The actuarial liability for inactive members was	3,756,682
The actuarial liability for retired members was	<u>110,353,367</u>
The total actuarial liability was	\$212,111,989
System assets as of that date were (actuarial value)	<u>147,126,019</u>
The unfunded actuarial liability was	<u>\$64,985,970</u>
 The ratio of system's assets to total actuarial liability was	 69.4%
As of that date the total covered employee payroll was	\$36,432,203

The normal cost for employees on that date was 9.7% of payroll

The normal cost for the employer was (including expenses) 5.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.50% per annum
 Rate of Salary Increase: Varies with years of service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2017	\$147,126,019	\$212,111,989	\$64,985,970	69.4%	\$36,432,203	178.4%
1/1/2015	\$131,541,187	\$191,665,860	\$60,124,673	68.6%	\$33,686,645	178.5%
1/1/2014	\$122,084,535	\$179,834,295	\$57,749,760	67.9%	\$32,605,497	177.1%
1/1/2013	\$112,131,508	\$168,935,280	\$56,803,772	66.4%	\$31,597,470	179.8%
1/1/2012	\$114,445,376	\$156,914,866	\$42,469,490	72.9%	\$28,963,004	146.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Retirement in Past Years										
Superannuation	12	12	9	11	15	12	15	26	24	14
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	2	0	1	4	1	0	0	0	3
Total Retirements	13	14	9	12	19	13	15	26	24	17
 Total Retirees, Beneficiaries and Survivors	 513	 507	 498	 489	 475	 475	 471	 464	 462	 463
 Total Active Members	 654	 665	 636	 674	 680	 644	 646	 631	 647	 650
Pension Payments										
Superannuation	\$5,501,476	\$5,656,536	\$5,817,970	\$5,954,325	\$6,188,678	\$6,409,252	\$6,681,870	\$6,795,072	\$7,161,286	\$7,490,206
Survivor/Beneficiary Payments	329,303	344,383	336,107	319,257	325,139	354,773	354,817	372,199	388,920	379,191
Ordinary Disability	18,146	18,506	18,866	19,226	19,586	19,946	20,306	20,666	21,026	21,416
Accidental Disability	1,028,683	950,030	978,467	1,073,394	1,057,937	1,066,547	1,003,327	970,920	1,000,368	1,129,072
Other	608,959	558,240	551,113	638,302	600,448	699,298	796,194	786,814	675,440	701,275
Total Payments for Year	<u>\$7,486,567</u>	<u>\$7,527,695</u>	<u>\$7,702,523</u>	<u>\$8,004,504</u>	<u>\$8,191,788</u>	<u>\$8,549,816</u>	<u>\$8,856,514</u>	<u>\$8,945,671</u>	<u>\$9,247,040</u>	<u>\$9,721,159</u>

PERAC

Five Middlesex Avenue | Suite 304

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac